

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**

Manhattan, Kansas

**FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

For the Year Ended December 31, 2015

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**

Manhattan, Kansas  
As of December 31, 2015

**EXECUTIVE COMMITTEE**

Janet Duncan  
Wayne Link  
Mary White  
Janice Lyhane  
Gail Daughtery  
Gwen Owens-Wilson  
Janet Keller  
Susan Adamchak  
Gerald Meyers  
Robin Ottoson  
Judith Cremer  
Susan Davis  
Susan Moyer  
Eric Benson

**OFFICERS**

President - Eric Benson  
Vice-President - Susan Moyer  
Secretary - Treasurer - Mary White

**DIRECTOR**

Linda Knupp

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
Manhattan, Kansas  
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March 29, 2016

Board Members  
North Central Kansas Libraries System  
Manhattan, Kansas

### Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Kansas Libraries System (the Libraries System), as of and for the year ended December 31, 2015, which collectively comprise the Libraries System's basic financial statements and the related notes to the financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in Governmental Auditing Standards, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Libraries System, as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016 on our consideration of the Libraries System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Libraries System's internal control over financial reporting compliance.

*Varney & Associates, CPAs, LLC*

Certified Public Accountants  
Manhattan, Kansas



March 29, 2016

Board Members  
North Central Kansas Libraries System  
Manhattan, Kansas

**Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Central Kansas Libraries System (the Libraries System), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Library System's basic financial statements, and have issued our report thereon dated March 29, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Libraries System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

March 29, 2016  
North Central Kansas Libraries System  
(Continued)

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Libraries System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vanney & Associates, CPAs, LLC*

Certified Public Accountants

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
Manhattan, Kansas  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the Year Ended December 31, 2015

**General Information**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include information that presents two different views of the Libraries System:

The Statement of Net Position and Statement of Activities are the *government-wide financial statements*. They provide information about the activities of the Libraries System as a whole and present a longer-term view of the Libraries System's finances.

The Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance are the *fund financial statements*. These statements focus on current financial resources and provide a more detailed view about the accountability of the Libraries System's sources and uses of funds for all governmental funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Throughout this discussion and analysis, financial figures have been rounded to the nearest \$1,000 unit.

**Financial Analysis of the Libraries System as a Whole**

The following significant changes in net position occurred during 2015:

- *Current Assets.* Current assets decreased by \$65,000 primarily due to (1) a \$24,000 cash purchase of a new vehicle, (2) and a cash payment of \$11,000 for prior year liabilities.
- *Capital Assets - Net.* A new vehicle was purchased for \$24,000.

The following table is presented for comparative analysis of the Libraries System government-wide net position:

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
Current assets	\$ 1,024,000	\$ 1,089,000
Capital assets - Net	48,000	40,000
<b>Total Assets</b>	<u>\$ 1,072,000</u>	<u>\$ 1,129,000</u>
<b>Liabilities</b>		
Current liabilities	\$ -	\$ 11,000
Long-term liabilities	29,000	27,000
<b>Total Liabilities</b>	<u>\$ 29,000</u>	<u>\$ 38,000</u>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue - Property taxes	<u>\$ 824,000</u>	<u>\$ 802,000</u>
<b>Net Position</b>		
Investment in capital assets	\$ 48,000	\$ 40,000
Restricted	80,000	62,000
Unrestricted	91,000	187,000
<b>Total Net Position</b>	<u>\$ 219,000</u>	<u>\$ 289,000</u>
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<u>\$ 1,072,000</u>	<u>\$ 1,129,000</u>



**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
Manhattan, Kansas  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the Year Ended December 31, 2015

**Financial Analysis of the Libraries System as a Whole (Continued)**

The Libraries System government-wide net position decreased by approximately \$70,000 during the year ended December 31, 2015. This change is primarily explained by the following activity:

- *Property Tax Levy.* The 2015 and 2014 property taxes were budgeted at \$910,000 and \$897,000, respectively. This increase of \$13,000 was planned to primarily fund (1) additional book and material costs for members of the Libraries System and (2) additional personnel service expense for employees. The actual increase in the property tax revenues was \$26,000 and was expensed as intended.
- *Personnel Services Expense.* This account increased by \$22,000 from 2014 to 2015. Much of the change in this account is attributable increases in (1) rates of pay for cost of living and merits raises and (2) additional costs of KPERS employer contributions.
- *Operating Grant Revenues.* In 2014, the Libraries System received \$34,000 of LSTA regional automation grants. These grants were not available to the Libraries System in 2015 which explains much of the decrease in program revenues from 2014 to 2015.

The following table is presented for comparative analysis of the Libraries System government-wide changes in net position:

	<u>2015</u>	<u>2014</u>
<b>Revenue</b>		
Program revenues	\$ 128,000	\$ 185,000
General revenues	912,000	885,000
<b>Total Revenue</b>	<u>\$ 1,040,000</u>	<u>\$ 1,070,000</u>
 <b>Expenses</b>	 <u>1,110,000</u>	 <u>1,106,000</u>
 <b>Change in Net Position</b>	 <u><u>\$ (70,000)</u></u>	 <u><u>\$ (36,000)</u></u>

**Financial Analysis of Funds within the Libraries System**

The Libraries System operates a series of funds of which the General Fund and Employee Benefit Fund are financed primarily through property tax levy each year. The remaining funds are financed primarily through gifts, grants and charges for service.

The General Fund experienced a significant \$23,000 decrease in fund balance during 2015. This decrease is attributable to the 2014 budget surplus of \$81,000 which was carried over and made available for 2015 operations. The budget surplus continued through 2015 and \$58,000 has been reserved for use in the 2016 budget year and beyond.

The Employee Benefits Fund was operated within budgeted limits for 2015. The costs of employee benefits increased by 4% from 2014 to 2015. Much of this cost is attributable to the increases in required KPERS contributions.

The State Aid Fund balance decreased by \$1,000 leaving nearly \$11,000 available for carryforward to the 2016 budget year. State Aid funding is available to meet the general needs of the Libraries System and the 2015 changes within this fund are attributable to the decision to use state aid funding to subsidize the budget of the general fund.

Other governmental funds were operated with an ending \$56,000 fund balance which is to be carried over to 2016 and is restricted to use for member library local funds.

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
Manhattan, Kansas  
**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**  
For the Year Ended December 31, 2015

**Factors Bearing on the Future of the Libraries System**

At the time these financial statements were prepared and audited, the Libraries System was aware of the following items that could have significant impact on its finances in the future:

- Continued low interest rates will have a negative impact on future revenue derived from investment of idle funds
- Due to budgetary concerns, there is a possibility that capital improvement funds will be utilized in full during the 2016 budget year to assist the general fund in meeting the operating needs of the Libraries System. These funds originated from the general fund and require board approval for such an appropriation.
- The Libraries System continues to closely monitor external factors such as (1) the costs of facilities and employees which are shared with the Manhattan Public Library, (2) medical insurance, (3) other employee benefit costs, and (4) third-party service charges. Currently, there are no known factors which would be expected to cause significant fluctuations in operating costs.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Libraries System finances and to demonstrate accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

NCKLS Office  
629 Poyntz Avenue  
Manhattan, KS 66502

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
Manhattan, Kansas  
**STATEMENT OF NET POSITION**  
December 31, 2015

**ASSETS**

**Assets**

Cash and cash equivalents	\$ 180,307
Taxes receivable	823,925
Prepaid expense	19,315
Capital assets - Net	47,563
<b>TOTAL ASSETS</b>	<b><u>\$ 1,071,110</u></b>

**LIABILITIES, DEFERRED INFLOWS AND NET POSITION**

**Liabilities**

Accounts payable	\$ -
Compensated absences	29,414
<b>Total Liabilities</b>	<b><u>\$ 29,414</u></b>

**Deferred Inflows of Resources**

Unavailable revenue - Property taxes	<u>\$ 823,925</u>
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**Net Position**

Net investment in capital assets	\$ 47,563
Restricted	80,045
Unrestricted	90,163
<b>Total Net Position</b>	<b><u>\$ 217,771</u></b>

**TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION**

**\$ 1,071,110**

*Financial Statements*

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
Manhattan, Kansas  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2015

**Expenses**

Library Operations	
Personnel services	\$ 651,434
Commodities	117,889
Contractual services	171,370
Grants issued to others	148,525
Depreciation	21,052
<b>Total Expenses</b>	<u>\$ 1,110,270</u>

**Program Revenues**

Charges for services	\$ 5,046
Operating grants and contributions	122,970
<b>Total Program Revenues</b>	<u>\$ 128,016</u>

**Net Program Expenses**

\$ 982,254

**General Revenues**

Property taxes	\$ 909,817
Interest	1,231
<b>Total General Revenues</b>	<u>\$ 911,048</u>

**Change in Net Position**

\$ (71,206)

**NET POSITION - BEGINNING**

288,977

**NET POSITION - ENDING**

\$ 217,771

*Financial Statements*

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
 Manhattan, Kansas  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
 December 31, 2015

	General Fund	Employee	Capital	State Aid Fund	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 46,900	\$ 26,426	\$ 47,729	\$ 4,139	\$ 55,113	\$ 180,307
Taxes receivable	722,647	101,278	-	-	-	823,925
Prepaid expense	11,190	-	-	7,171	954	19,315
<b>Total Assets</b>	<u>\$ 780,737</u>	<u>\$ 127,704</u>	<u>\$ 47,729</u>	<u>\$ 11,310</u>	<u>\$ 56,067</u>	<u>\$ 1,023,547</u>
<b>LIABILITIES</b>						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue - Property taxes	\$ 722,647	\$ 101,278	\$ -	\$ -	\$ -	\$ 823,925
<b>Fund Balance</b>						
Restricted	\$ -	\$ -	\$ -	\$ -	\$ 56,067	\$ 56,067
Assigned	-	26,426	47,729	11,310	-	85,465
Unassigned	58,090	-	-	-	-	58,090
<b>Total Fund Balance</b>	<u>\$ 58,090</u>	<u>\$ 26,426</u>	<u>\$ 47,729</u>	<u>\$ 11,310</u>	<u>\$ 56,067</u>	<u>\$ 199,622</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>	<u>\$ 780,737</u>	<u>\$ 127,704</u>	<u>\$ 47,729</u>	<u>\$ 11,310</u>	<u>\$ 56,067</u>	<u>\$ 1,023,547</u>

**Total Fund Balance - Modified Accrual Basis** \$ 199,622

Amounts reported in the statement of net position are different because:

Capital assets are not financial resources and are not reported in the funds 47,563

Compensated absences are included as a liability (29,414)

**Net Position of Primary Government - Full Accrual Basis** \$ 217,771

The accompanying notes are an integral part of these financial statements.  
 See Independent Auditor's Report.

# *Financial Statements*

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
 Manhattan, Kansas  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS**  
 For the Year Ended December 31, 2015

	<b>General Fund</b>	<b>Employee Benefit Fund</b>	<b>Capital Improvement Fund</b>	<b>State Aid Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>Revenue</b>						
Property taxes	\$ 740,069	\$ 169,748	\$ -	\$ -	\$ -	\$ 909,817
Charges for services	5,046	-	-	-	-	5,046
Intergovernmental	9,448	-	-	59,108	54,414	122,970
Interest	1,231	-	-	-	-	1,231
<b>Total Revenue</b>	<b>\$ 755,794</b>	<b>\$ 169,748</b>	<b>\$ -</b>	<b>\$ 59,108</b>	<b>\$ 54,414</b>	<b>\$ 1,039,064</b>
<b>Expenditures</b>						
Personnel services	\$ 478,785	\$ 170,294	\$ -	\$ -	\$ -	\$ 649,079
Commodities	-	-	-	58,870	59,019	117,889
Contractual services	132,044	-	-	1,651	-	133,695
Grants issued to others	148,525	-	-	-	-	148,525
Capital outlay	19,632	-	27,271	-	19,373	66,276
<b>Total Expenditures</b>	<b>\$ 778,986</b>	<b>\$ 170,294</b>	<b>\$ 27,271</b>	<b>\$ 60,521</b>	<b>\$ 78,392</b>	<b>\$ 1,115,464</b>
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	<b>\$ (23,192)</b>	<b>\$ (546)</b>	<b>\$ (27,271)</b>	<b>\$ (1,413)</b>	<b>\$ (23,978)</b>	<b>\$ (76,400)</b>
<b>FUND BALANCE - BEGINNING</b>	<b>81,282</b>	<b>26,972</b>	<b>75,000</b>	<b>12,723</b>	<b>80,045</b>	<b>276,022</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 58,090</b>	<b>\$ 26,426</b>	<b>\$ 47,729</b>	<b>\$ 11,310</b>	<b>\$ 56,067</b>	<b>\$ 199,622</b>

(Continued)

The accompanying notes are an integral part of these financial statements.  
 See Independent Auditor's Report.

# *Financial Statements*

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
Manhattan, Kansas  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS (CONTINUED)**  
For the Year Ended December 31, 2015

	<u>Total</u>
<b>Net Change in Fund Balances - Modified Accrual Basis</b>	<b>\$ (76,400)</b>
Amounts reported in the statement of activities are different because:	
Capital outlays are reported as expenditures in the funds but are recorded as capital assets with an annual charge to depreciation expense at the government wide reporting level	
Capital outlay expenditures	28,601
Depreciation expense	(21,052)
Changes in the liability for compensated absence are reported as adjustments to expense at the government wide reporting level but are not reported in the funds	<u>(2,355)</u>
<b>Change in Net Position of Primary Government - Full Accrual Basis</b>	<b><u><u>\$ (71,206)</u></u></b>

The accompanying notes are an integral part of these financial statements.  
See Independent Auditor's Report.

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***Financial Statements***

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
 Manhattan, Kansas  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)**  
 For the Year Ended December 31, 2015

	General Fund			Employee Benefits		
	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual	Favorable (Unfavorable) Variance
<b>REVENUE</b>						
Property taxes	\$ 744,171	\$ 740,069	\$ (4,102)	\$ 165,927	\$ 169,748	\$ 3,821
Charges for services	6,000	5,046	(954)	-	-	-
Intergovernmental	8,000	9,448	1,448	-	-	-
Interest	2,000	1,231	(769)	-	-	-
Miscellaneous	1,000	-	(1,000)	-	-	-
<b>Total Revenue</b>	<u>\$ 761,171</u>	<u>\$ 755,794</u>	<u>\$ (5,377)</u>	<u>\$ 165,927</u>	<u>\$ 169,748</u>	<u>\$ 3,821</u>
<b>EXPENDITURES</b>						
Personnel Services	\$ 475,000	\$ 478,785	\$ (3,785)	\$ 181,000	\$ 170,294	\$ 10,706
Commodities	130,000	3,599	126,401	-	-	-
Contractual services	219,000	134,590	84,410	-	-	-
Grants issued to others	-	146,400	(146,400)	-	-	-
Capital Outlay	-	17,409	(17,409)	-	-	-
<b>Total Expenditures</b>	<u>\$ 824,000</u>	<u>\$ 780,783</u>	<u>\$ 43,217</u>	<u>\$ 181,000</u>	<u>\$ 170,294</u>	<u>\$ 10,706</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ (62,829)	\$ (24,989)	<u>\$ 37,840</u>	\$ (15,073)	\$ (546)	<u>\$ 14,527</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>62,829</u>	<u>65,435</u>		<u>15,073</u>	<u>26,972</u>	
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ -</u>	<u>\$ 40,446</u>		<u>\$ -</u>	<u>\$ 26,426</u>	
<b>ADJUSTMENTS TO GAAP - PREPAID EXPENSES</b>		11,190			-	
<b>ADJUSTMENTS TO GAAP - ENCUMBRANCES</b>		6,454			-	
<b>FUND BALANCE - GAAP BASIS</b>		<u>\$ 58,090</u>			<u>\$ 26,426</u>	

The accompanying notes are an integral part of these financial statements.  
 See Independent Auditor's Report.

*Financial Statements*



**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
Manhattan, Kansas  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015

**Note 1: Summary of Significant Accounting Policies**

***Reporting Entity***

The North Central Kansas Libraries System (the Libraries System) is a municipal entity established by the State of Kansas and governed by an appointed board. The Libraries System is primarily funded through tax levies, grants, and fees. Revenue is used to assist participating libraries in staffing and providing programs and services. The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity.

The financial reporting entity of the Libraries System is comprised of itself as the primary government and any component units. Component units of the governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. Based on the application of the criteria above, there are no component units.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The Libraries System's basic financial statements include both government-wide (reporting the Libraries System as a whole) and fund financial statements (reporting the Libraries System's major funds).

**Government-wide Financial Statements**

The government-wide financial statements (i.e. the statement of net position and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. For the most part, the effect of interfund activity has been removed from the statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net position includes and recognizes all long-term assets and receivables as well as long-term liabilities and obligations. The Libraries System's net assets are reported in three parts—invested in capital assets; restricted net assets; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues and are reported instead as general revenue.

**Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
Manhattan, Kansas  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2015

**Note 1: Summary of Significant Accounting Policies (Continued)**  
***Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)***  
**Fund Financial Statements**

The Libraries System reports the following major governmental funds:

The General Fund is the Libraries System's primary operating fund. It accounts for all financial resources of the Libraries System, except those required to be accounted for in another fund.

The Employee Benefits Fund is a special revenue fund used to account for all employee benefits of the Libraries System.

Capital Improvement Fund is a special revenue fund used to account for all capital improvement expenditures to improve the Libraries System.

The State Aid Fund is a special revenue fund used to account for state support and items to support operation of the Libraries System.

The other aggregate non-major funds of the Libraries System account for various grants and other resources.

**Budgetary Information**

Kansas statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. The Librarian submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to August 25, the budget is legally enacted.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles except that encumbrances are shown as expenditures. Budgetary comparisons for the General and Special Revenue Funds are presented as required by the State of Kansas; that is, including encumbrances as expenditures.

**Cash and Cash Equivalents**

The Libraries System has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments of three months or less when acquired.

**Capital Assets**

Capital assets are defined by the Libraries System as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment	5 -10 years
Vehicles	5 years

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
Manhattan, Kansas  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2015

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Compensated Absences***

It is the Libraries System's policy to permit employees to accumulate earned, but unused sick and vacation benefits. There is no liability for unpaid accumulated sick leave since the Libraries System does not have a policy to pay any amounts when employees separate from service with the Libraries System. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund - General Fund only for employee terminations as of year-end.

***Taxes Receivable***

Taxes receivable consist of amounts levied for 2016 as part of the 2016 budget. As the amounts cannot be used until the year for which they are levied, the receivable is offset by a corresponding deferred revenue. This deferred revenue will be recognized in 2016 when the taxes are received.

***Fund Balances - Governmental Funds***

The Libraries System elected to implement GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in calendar year 2011. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Restricted - includes amounts restricted by external sources (creditors, grantors, contributors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Assigned - includes amounts that the Libraries System intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. According to the Libraries System's policy, amounts may be assigned by the Director under the authorization of the Libraries System's board of directors.
- Unassigned - includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Libraries System considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Libraries System considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Libraries System's board of directors has provided otherwise in its commitment or assignment actions.

***Net Position***

Net position restricted by grantors are restricted for use in accordance with grant agreements for specified purposes. The Libraries System's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Note 2: Deposits and Investments**

K.S.A 9-1401 establishes the depositories which may be used by the Libraries System. The statute requires banks eligible to hold the Libraries System's funds have a main or branch bank in the county in which the Libraries System is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Libraries System has no other policies that would further limit interest rate risk.

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
 Manhattan, Kansas  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
 December 31, 2015

**Note 2: Deposits and Investments (Continued)**

K.S.A. 12-1675 limits the Libraries System's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Libraries System has no investment policy that would further limit its investment choices.

*Concentration of credit risk.* State statutes place no limit on the amount the Libraries System may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

*Custodial credit risk - deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Libraries System's deposits may not be returned to it. State statutes require the Libraries System's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%.

At December 31, 2015, the Libraries System's carrying amount of deposits was \$180,307 and the bank balance was \$191,710. The bank balance was held by one bank resulting in a concentration of credit risk. To mitigate this risk, the Libraries System maintains a repurchase agreement by which excess idle funds are swept out of the account at the end of the bank business day and invested overnight in low-risk governmental securities.

**Note 3: Capital Assets**

Capital asset activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Capital assets being depreciated</b>				
Furniture and equipment	\$ 28,900	\$ 1,880	\$ -	\$ 30,780
Vehicles	69,779	26,721	-	96,500
<b>Total</b>	<u>\$ 98,679</u>	<u>\$ 28,601</u>	<u>\$ -</u>	<u>\$ 127,280</u>
<b>Less: Accumulated depreciation</b>				
Furniture and equipment	\$ 13,459	\$ 5,497	\$ -	\$ 18,956
Vehicles	45,206	15,555	-	60,761
<b>Total</b>	<u>\$ 58,665</u>	<u>\$ 21,052</u>	<u>\$ -</u>	<u>\$ 79,717</u>
<b>Governmental Activities Capital Assets - Net</b>	<u>\$ 40,014</u>	<u>\$ 7,549</u>	<u>\$ -</u>	<u>\$ 47,563</u>

**Note 4: Long-Term Obligation Activity**

Changes in long-term obligations for the year ended December 31, 2015 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Compensated absences	<u>\$ 27,059</u>	<u>\$ 31,773</u>	<u>\$ 29,418</u>	<u>\$ 29,414</u>

**NORTH CENTRAL KANSAS LIBRARIES SYSTEM**  
Manhattan, Kansas  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2015

**Note 5: Commitments and Contingencies - Encumbrances**

The Libraries System uses encumbrances to control expenditure commitments for the year and to enhance cash management. Encumbrances represent commitments related to executor contracts not yet performed and purchase orders not yet filled. Commitments for such expenditure of monies are encumbered to reserve a portion of applicable appropriations. Encumbrances still open at year-end are not accounted for as expenditures and liabilities, but rather as restricted or assigned fund balance. At December 31, 2015, the Libraries System's recorded encumbrances in governmental funds were as follows:

General	\$ 6,454
Other Governmental Funds	<u>1,224</u>
	<u>\$ 7,678</u>

**Note 6: Shared Costs Agreement**

The Libraries System and the Manhattan Public Library (the Library) share common management and also have an agreement in place whereby the Library agrees to provide certain operating costs, such as personnel, occupancy and supplies expense.

For 2015, the Libraries System made payments totaling \$662,595 for personnel services and \$17,559 for occupancy and supply expenses under this agreement.

**Note 7: Subsequent Events**

Management has evaluated subsequent events through March 29, 2016 which is the date the financial statements were available for issuance.